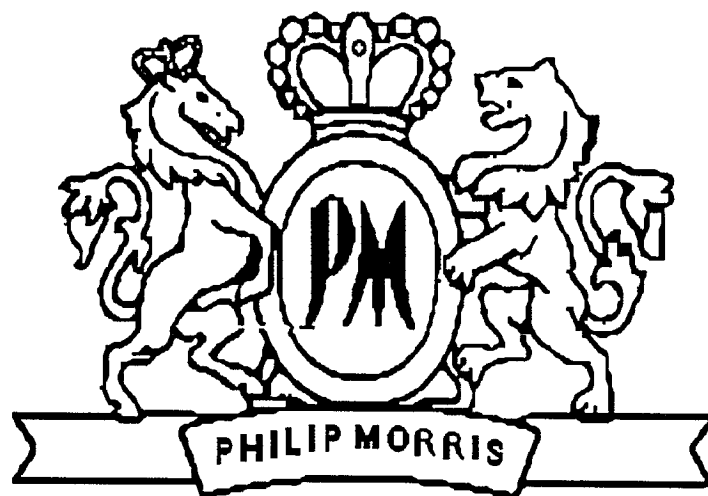


C O R P O R A T E A F F A I R S



C O R P O R A T E C O S T R E V I E W

2046996735

CORPORATE AFFAIRS SUMMARY

Public Affairs	2RF Total Budget	Cost Review Reductions	Final 1993 Budget
Cultural Affairs	3,678,449	(473,190)	3,205,259
Corporate Contributions	2,151,135	(173,000)	1,978,135
Public Programs	3,576,974	(321,800)	3,255,174
International Public Affairs	931,143	(211,000)	720,143
Corporate Advertising	6,640,620	(2,396,200)	4,244,420
Gateway Literacy	2,544,790	(238,000)	2,306,790
Total	19,523,111	(3,813,190)	\$ 15,709,921

Government Affairs			
Washington Relations	11,526,674	(513,000)	11,013,674
Corp. Government Affairs	4,876,132	(1,530)	4,874,602
Total	16,402,806	(514,530)	\$ 15,888,276

Corporate Communications			
Publications	3,552,718	(240,720)	3,311,998
Media Relations	1,980,530	(231,260)	1,749,270
Financial Communications	1,406,192	(153,500)	1,252,692
Editorial Services	1,182,077	(399,300)	782,777
Total	8,121,517	(1,024,780)	\$ 7,096,737

CA Policy & Administration			
Policy, Finance & Analysis	2,793,896	(184,150)	2,609,746
CA Administration	2,182,158	(207,050)	1,975,108
Total	4,976,054	(391,200)	\$ 4,584,854

External Affairs	551,360	(3,100)	\$ 548,260
-------------------------	---------	---------	-------------------

Corporate Affairs Executive	3,876,000	(22,000)	\$ 3,854,000
------------------------------------	-----------	----------	---------------------

Board Allocated Contributions	60,500,000	(9,000,000)	51,500,000
Contingency	0	4,500,000	4,500,000
Total	60,500,000	(4,500,000)	\$ 56,000,000

TOTAL CORPORATE AFFAIRS	113,950,848	(10,268,800)	103,682,048
--------------------------------	--------------------	---------------------	--------------------

Companies			
Annual Report	2,915,000	(200,000)	2,715,000
Securities Analyst	600,000	(200,000)	400,000
Quarterly	1,855,000	(500,000)	1,355,000
Total	5,370,000	(900,000)	4,470,000

Art Acquisition	150,000	(100,000)	50,000
------------------------	---------	-----------	---------------

NOTE: A 10% reduction in travel and temporary help was applied to all departments.

2046996736

2046996737

PHILIP MORRIS COMPANIES INC.
CORPORATE CONTRIBUTIONS
ANALYSIS OF 1993 BUDGET
As of July 20, 1993

OPERATING COMPANY	Original Budget	Revised Budget	% Reduction	Disbursed	Committed (b)	Anticipated	Remaining
Focused Giving	\$15,500,000 (a)	\$12,964,000	16.36%	\$10,467,345 (b)	\$2,137,500	\$1,897,000	(\$1,537,845)
Corporate	12,000,000	10,036,000	16.37%	7,136,270 (b)	620,520	2,126,450	152,760
Kraft General Foods	16,200,000	13,549,000	16.36%	8,453,503 (c)	747,008	4,581,400 (e)	(232,911)
Miller Brewing Company	2,500,000	2,091,000	16.36%	947,450 (c)	172,850	766,050	204,650
Mission Viejo Company	400,000	334,000	16.50%	96,750 (c)	0	237,000	250
PM International	2,000,000	1,673,000	16.35%	1,037,400 (c)	0	635,600 (f)	0
PM USA	6,400,000	5,353,000	16.36%	2,112,200 (c)	194,200	2,625,450	421,150
TOTAL GRANTS	\$55,000,000	\$46,000,000	16.36%	\$30,250,918	\$3,872,078	\$12,868,950	(\$991,946)
Matching Gifts	5,500,000	5,500,000	0.00%	3,421,733 (d)	0	NA	2,078,267 (g)
TOTAL BUDGET	\$60,500,000	\$51,500,000	14.88%	\$33,672,651	\$3,872,078	\$12,868,950	\$1,086,321 (g)

(a) Allocated as follows:

Corporate	\$12,450,000	\$10,412,000
Kraft General Foods	2,000,000	1,673,000
Miller Brewing Company	350,000	293,000
Mission Viejo Company	50,000	42,000
PM International	250,000	209,000
PM USA	400,000	335,000
	<u>\$15,500,000</u>	<u>\$12,964,000</u>

Scenario:

**\$9 Million Budget Reduction
(excluding Matching Gifts)**

(b) Actual as of July 20, 1993.

(c) Includes commitments paid as of 7/20/93; excludes July intercompany invoices.

(d) Disbursed as of June 30, 1993.

(e) Excludes possible \$200,000 - \$300,000 increase for Westchester United Way requested by Bob Morrison, chairman of this year's United Way drive.

(f) PM International had proposals in hand totalling approximately \$970,000 which they intended to fund. They have reduced this amount to \$635,000 to reflect a 16.4% reduction in their budget.

(g) Excludes impact of anticipated Matching Gift requests.

8829669702

7/30/93 10:06 AM

Samples of 1993 Commitments Due August - December

Corporate

Foundation for American Communications 2nd and final payment of a 2-year \$200,000 pledge for general support	\$100,000	Civic
Joint Center for Political and Economic Studies 5th payment of a 5-year \$100,000 pledge for the Leadership Campaign	\$20,000	Civic
Margaret Thatcher Foundation 3rd and final payment of a \$250,000 grant for an eight week internship for ten Russians	\$122,500	Civic
Harlem School of the Arts, Inc. 3rd and final payment of a 3-year basic grant for general support	\$10,000	Arts
National Organization on Disability 2nd and final payment of a 2-year \$10,000 pledge for renewal of general support - Exit Grant	\$5,000	Health
New York Blood Center 3rd payment of a 3-year \$150,000 pledge for support of one Senior Fellow in AIDS research, to be named a Philip Morris Fellow	\$50,000	Health

/continued

2046969739

Samples of 1993 Commitments Due August - December
(continued)

Corporate - Focused Giving

Brooklyn Academy of Music 1st payment of a 3-year \$1,500,000 pledge for the Philip Morris NEXT WAVE Forward Fund and continued sponsorship for the 1993, 1994 and 1995 NEXT WAVE Festival	\$500,000	Arts
John F. Kennedy Center for the Performing Arts Sponsorship of the 1993-94 season of the "Something New" Series for Audience Development	\$100,000	Arts
Pennsylvania Academy of the Fine Arts 2nd payment of a 2-year \$200,000 pledge for sponsorship of the Horace Pippin Exhibition	\$50,000	Arts
Federal City Council D.C. Committee on Public Education 4th payment of a 5-year \$1,000,000 pledge for the Comer School Program	\$130,000	Education
University of Tennessee Knoxville 3rd and final payment of a 3-year \$500,000 pledge to restructure its college of Education to create the prototype for schools of education in the 21st Century	\$100,000	Education
National Hispanic Council on Aging 2nd payment of a 3-year \$180,000 pledge for support of a Policy Institute that will focus on factors and forces that lead to hunger among the Latino elderly	\$60,000	Hunger

204696740

Samples of 1993 Anticipated Grants

Corporate

American Civil Liberties Union <u>Continued funding for Education initiative to advise those HIV positive individuals regarding their rights</u>	\$15,000	Health
National Minority AIDS Council <u>Continuation of scholarship program for participants at the 1993 National Skills Building Conference</u>	\$30,000	Health
John Tyler Community College <u>Continued support for the PM Career Scholarship Program</u>	\$61,000	Education
Academy of Natural Sciences <u>Sponsor three day Watershed Conference. Contributions staff met with principals to discuss and solicit proposal.</u>	\$100,000/2	Environment
Keep America Beautiful <u>Annual dues targeted toward the National Representatives Program and the Community Close-the-Loop Partnership Program</u>	\$75,000	Environment

Corporate - Focused Giving

Fund for Dance, Inc. <u>Special project support for the 20th Anniversary Celebration - ongoing general support provided</u>	\$25,000	Arts
Richmond Ballet <u>Renewal of support for its performance of the "Nutcracker"</u>	\$30,000	Arts

/continued

1149669102

Samples of 1993 Anticipated Grants
(continued)

Corporate - Focused Giving

Washington Ballet <u>Renewed sponsorship</u> of the "New Ballets" Program for the 1992-93 and 1993-94 seasons.	\$50,000	Arts
Support Center of New York <u>Renewed support</u> for the Technical Assistance Project for Hunger organizations	\$15,000	Hunger
Caritas - Relief for Croatia <u>Special funding</u> to aid victims of the war in Croatia and Bosnia-Herzegovina	\$15,000	Hunger
Professional Children's School <u>Renewed support</u> for the English as a Second Language (ESL) program	\$15,000	Education
University of California Los Angeles Support for a state-wide conference of schools of education. <u>Contributions Staff met with principals</u> <u>at university and solicited proposal.</u>	\$125,000	Education
Partnership for Quality Education <u>Renewed support</u> for the Teacher Resource Center serving the Archdiocese of New York	\$60,000	Education

2046996742

2046996743

CONSULTANTS

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
<u>PUBLIC AFFAIRS</u>		
Ad Rendon	\$115,000	<i>Media/Hispanic and Minority Affairs</i> Publicizes PM corporate citizenship programs relating to Hispanic communities, nationwide. Also supports other PM Company efforts in California and Los Angeles areas in particular.
Berman Enterprises	\$75,000	Provides consultation with respect to domestic and international issues as they affect the company and its businesses; provides strategic advice and counsel in working with government agencies and the media.
Circulation Experti (Warren Jackson)	\$24,000	Provides expertise on African/American press.
Conservation Company	\$144,300	Hunger and nutrition expertise has been helpful to our efforts to identify stellar organizations. Provides guidance in development of our environmental portfolio and are available to meet with organizations that PM currently funds or whom PM is considering for inclusion in the program.
EDA Systems	\$58,500	Hired to conduct an extensive evaluation of a \$1,000,000 grant to establish Family Learning Centers in five Washington DC public schools. Provides on-going technical assistance to the program directors and serves as a valuable resource for the programs staff and the contributions department.

2046996744

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
Kennedy-Keel Associates	\$100,000	Provides a comprehensive assessment and evaluation of Corporate Contributions' education programs, including potential add-on activities and additional initiatives; provides a comprehensive assessment of PM's Washington corporate affairs (non-government affairs) activities; developing rational concerning partnership with Hudson or Hover Institute to establish a Speakers Bureau featuring Cabinet members speaking on the Clinton Administration agenda; provides advice and assistance in establishing a partnership with the America 2000 Coalition.
Thomas A. Johnson	\$115,000	<i>Media/African American/Minority Affairs</i> Publicizes PM corporate citizenship programs relating to the African American community, nationwide. Also advises us on community issues.
Thomas B. Shropshire	\$90,000	Retired senior executive of Miller Brewing Company provides counsel on community relations.

2046996745

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
<u>GOVERNMENT AFFAIRS</u>		
Note: Government Affairs consultants were reduced 5% on average during the cost review except Kirkpatrick & Lockhart (50%) and Winburn and Jenkins (20%)		
Akin, Gump, Strauss, Hauer & Feld	\$240,500	Miller Brewing Company has utilized this firm both for legislative and other matters since January, 1990. Kirk O'Donnell, former O'Neil staffer, and the other associates assigned to our account have good contacts in the Administration and the committees of jurisdiction affecting Miller. They do provide quality technical analysis and are relied upon for legislative drafting.
Anderson and Madsen	\$42,000	Retained to advance our model bill through the Colorado legislature. They overcame many obstacles and opposition by COPIRG and succeeded in passage. Fred Anderson is a former Colorado Speaker of the House and is regarded as the "Dean of the lobbying corps." His intimate ties with the legislature were key to advancing our legislation. Ms. Madsen is an expert in the solid waste arena and her strong ties to the business community were instrumental in establishing a strong business coalition to support our bill. Madsen's good relationships with Colorado's regulatory agencies will now be valuable as our bill goes through the implementation process.

2046996746

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
APCO Associates	\$500,000	APCO is a tort consultant to PMMC, a consultant on animal rights issues to PMMC (G. Knox) and an ETS consultant to PM USA (E. Merlo). Neal Cohen is the principal account executive on the PM Family Tort Project and has been in this position since at least 1988. Our tort contract with APCO currently has them assisting the PM Family, national and state tort coalitions and other tort reform advocates with political, communications and grassroots strategies and related programs.
Arnold & Porter	\$1,100,000	Provides legal advice to the PM Family on the tort project and counsels the PM Family on tort related matters that relate to compliance issues about lobbying, political and tort coalition contributions.
D. Barrows & Associates	\$36,000	Dave Barrows is the principal of the firm and he was retained to represent KGF in the 1993 legislative session and regulatory follow-up, primarily for the purpose of achieving legislative relief for KGF from meeting the rigid plastic container provisions of the "rates and dates" law, SB66. Mr. Barrows is regarded as the "Dean of the lobbying corps" in Oregon and is experienced, well-respected and well-liked by members of the legislature. His work has been instrumental to our successful efforts to delay enforcement of SB66.
Bergner, Bockorny & Boyette	\$199,750	While a bipartisan lobbying firm, they were originally retained because of their strong House Republican contacts. Dave Bockorny was House liaison in the Reagan-Bush White House and is well respected by Republicans and Democrats alike.
Black, Manafort, Stone and Kelly	\$117,500	Charlie Black, former Republican National Committee Chairman and Bush operative, is principally working to buttress our access to Republican Senators.

20469669702

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
Cassidy & Associates	\$78,000	Jack Brennan is a former Massachusetts state Senator who has excellent ties with members of the Massachusetts legislature. He is especially close to Senate President Bolger, who maintains significant influence over the activities of the legislature. Mr. Brennan is an experienced lobbyist who is familiar with KGF's solid waste issues, and has been retained to defeat MassPIRG's packaging and expanded bottle bill legislation and to monitor MassPIRG's continued efforts to boycott KGF's products. Mr. Brennan is also charged with representing KGF in the upcoming MassPIRG ballot initiative on expanded bottle bill legislation.
Covington & Burling	\$280,000	Their role is to serve as general counsel to the Consumer Products Company Tort Coalition, agree the legal objectives with member company litigators, draft legislation and amendments, prepare lobby papers and testimony for legislative committees and administer the coalition's budget.
Carol Cox	\$47,000	Carol Cox is one of a few people who understand the intricate budget process which always affects us given our vulnerabilities in excise taxes. Because of her bipartisan Board, "Committee for a Responsible Federal Budget," and given her "neutral" status, Carol is able to access many people who would be inaccessible to us given our issues.
Crowell & Moring	\$150,000	Victor Schwartz, partner of C & M, serves as a legal consultant to the Consumer Products Tort Coalition and separately serves as a legal tort consultant to the PM Family. His PM related assignments are articulated by Chuck Wall. Mr. Schwartz is a nationally recognized legal scholar and advises federal and state tort coalitions and public officials.

8429696748

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
Curtis, Thaxter, Stevens, Broder and Micoleau	\$36,000	Charlie Micoleau and Mary Mayhew were retained to advance KGF's legislative proposal to lift the Maine ban on Capri Sun. Our bill was favorably reported from committee without a deposit, absolutely unheard of in Maine's strict bottle bill law. Despite their good efforts, however, our bill did not advance through the legislature because of the link with legislation to lift the ban on aseptic packaging. Mr. Micoleau and Ms. Mayhew are now working with us to gain industry consensus on a strategic plan for the 1994 session.
Foreman & Heidepriem	\$58,750	Carol Foreman is one of the most respected consumer activists in town, formerly an Assistant Secretary of Agriculture. (Her brother is Governor of Arkansas). She has been useful, mostly with New York public affairs programs, in providing strategy and advice on various interest groups. This retainer could be transferred to New York. It was originated in Washington since so many of the groups, i.e. National Women's Political (caucus) are here and coordination between WRO and PM/NY help to maximize our interests.
Gold & Liebengood	\$406,000	Howard Liebengood is one of the best Republican lobbyists in town. His partner, Marty Gold, is an expert parliamentarian. He is subcontracting an "FOB," Paul Berry, at our request. The firm has good depth in the health care area.

2046996749

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
Johnson and Gibbs	\$78,000	Retained specifically because of the value of one of its associates, Gary Newton. Mr. Newton was staff director for the House Natural Resources Committee for 12 years, is very close to the committee's chairman, Robert Saunders, and is viewed by legislators and lobbyists alike as the undisputed expert on solid waste. Mr. Newton was retained to advance our model bill legislation through the Texas legislature and to work with the Texas Water Commission, the regulatory agency charged with solid waste.
Kirkpatrick & Lockhart	\$95,000	George Koch has been retained to provide strategic guidance and food industry insights which he has gained after many years as President of GMA.
Kimbell and Sherman	\$150,000	Bob Sherman and Steve Kimbell are former members of Governor Kulin's administration. Mr. Sherman was the Governor's press secretary and Mr. Kimbell was the chief legislative counsel. Their value to KGF is in their ties to the current Dean administration and with the legislature. They are also experts in the solid waste area and are one of the most substantively-based firms in the KGF group. Kimbell and Sherman were retained to advance PM's solid waste model bill and succeeded in achieving that goal. They are also charged with achieving regulatory implementation of the bill. Because of their broad experience, the company has also been retained to provide general consulting services, replacing The Madison Group/Earle Palmer Brown, which has dissolved effective August 1.

2046969402

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
L. A. Motley & Co.	\$20,000 yr. Mgt. Corp. ----- \$20,000 Maxwell House	Claude Gingrich is a founding partner with the firm, and is a former General Counsel to the Office of the U.S. Trade Representative. He has worked with General Foods and now KGF, since 1985. His primary focus has been international coffee trade issues, an area that is likely to see increased activity over the next 6-12 months.
McCann Public Affairs	\$90,000	Retained to represent KGF in the New York legislature on several issues: solid waste, downsizing legislation, product-to-package ratio legislation and clean air legislation/regulation. Ms. McCann is an expert in the solid waste area and maintains close ties to the republican leadership in the New York Senate. Her efforts on behalf of KGF were instrumental in preventing the "rates and dates" packaging legislation from reaching the Assembly floor - a first in the past 3 years. She has also successfully gained the support of Senate leadership and the New York business community to work for modifications of the clean air regulations which negatively impact KGF's bakery operations in New York.
McLeod, Wilkinson	\$32,250	Phil Fraas, formerly Chief Counsel of the House Agriculture Committee, has been retained for numerous tobacco projects. He is an excellent lawyer and seasoned Hill counsel.
Mongoven, Jack	\$85,500	Mongoven has a very unique niche. At our request, he will do investigatory work on various activist groups and flag problems, i.e. EDF, animal rights groups, etc. KGF uses the majority of his services. This contract ought to be split between KGF and WRO.

2046996751

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
Ogilvy, Adams and Rinehart	\$210,000	They have established a labor-management familiar coalition to work Hill issues re: Thurmond Bill. In addition, they can be of particular help on issues that impact either PM or KGF in their representation of Miller.
Oldaker, Ryan & Leonard	\$487,500	This year we retained this new firm in lieu of Manatt, Phelps (Oldaker's former firm) and Wunder, Diefenderfer (Ryan's former firm). Bill Oldaker, a former Kennedy staffer and FEC lawyer, is well respected on the House and Senate side. Tom Ryan, formerly Dingell's Chief Counsel, has great relationships with the Energy and Commerce Committee. The other partner, Rob Leonard, was chief counsel of the Ways and Means Committee for many years.
Rita O'Rourke	\$64,750	Rita O'Rourke is our principal retainer to assist with DoD issues which have become increasingly tough. She has done a remarkable job for us on the various services' sales restriction proposals and in triggering the reform of the commissary's payment schedule.
Rutledge, Ecenia, Underwood, and Purnell	\$36,000	Gary Rutledge is a principal in the firm, and was retained to protect KGF's interests in the legislature dealing with the advance disposal fee (ADF) legislation. Mr. Rutledge is also charged with insuring that regulatory implementation of the law does not adversely impact KGF. Mr. Rutledge has been a valuable resource in Florida because he has worked the ADF issue since its original 1989 adoption. He has strong legislative and regulatory ties, and his efforts resulted in an amendment to the ADF legislation which specifically protected KGF and other product manufacturers from collecting the ADF.

2046996752

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
Sacramento Advocates	\$90,000	Sacramento Advocates were retained to advance KGF's bill for a food exemption from the requirements of the rigid plastic container "rates and dates" law, SB235. Gary Neese and Barry Brokaw (long-time staffers for Senator Dan Boatwright) were responsible for gaining the support and sponsorship of Senator Boatwright who is an aggressive fighter for his issues. Because of Senator Boatwright's advocacy, our exemption bill was adopted by the Senate and we have been successful in swaying the liberal Assembly Natural Resources Committee. Mr. Neese and Mr. Brokaw can be credited with bringing SB235's author, Senator Hart, to the negotiating table.
Shields Legislative Associates	\$84,000	Brad Shields, President of Shields Legislative Associates, was retained to advance PM's model bill through the Texas legislature and to work with our regulatory lobbyist to insure proper implementation of our legislation. Mr. Shield's political strategy and legislative contacts were instrumental in successfully passing our model bill. Mr. Shields maintains close ties to the Texas business community and was responsible for establishing the business coalition in support of the model bill.
Stanton & Associates	\$235,000	Jim Stanton is a former Member of Congress from Ohio. He was and is one of the best liked and respected Members of the House. He has a very large network of relationships with House Members and is very goal oriented.
Vandervolt, Hill & Gosdeck	\$150/hr.; Avg. \$2,500 a month	Tom Gosdeck has handled dairy and food law issues in Albany, N.Y. since 1988. He is a former counsel to several New York Senate committees, and is well regarded by Northfield personnel.

2046969753

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
Winburn and Jenkins	\$299,000	John Winburn is our principal outside tax lobbyist. He is one of the best in town and has good reach, particularly with his new partner, former Ways and Means Committee Member, Ed Jenkins. Ed Jenkins recently turned down the NAFTA czar position.
Womble & Carlyle	\$75,000	Sam Witt provides legal counsel via C&B to the Consumer Products Tort Coalition, is a member of the Board of the American Tort Reform Association and The Lawyers For Civil Justice. Sam's principal functions are to activate defense bar leaders, key companies and industries which have major tort reform needs, guide and direct ATRA & LCJ, and provide political counsel to the Consumer Products Tort Coalition.
Wood Communications Group	\$31,500	Mr. Wood, president of the firm, is regarded as one of the best political strategists in Wisconsin. He has managed several gubernatorial campaigns, ran for Governor, and has long-standing ties to the Wisconsin legislature. Mr. Wood has been retained to represent KGF in the upcoming legislative battle over solid waste.
Other KGF State Lobbyists	\$66,000	Contract negotiations are pending for the retention of lobbyists in Illinois, Rhode Island, Pennsylvania, Ohio and New Jersey. For budget purposes a 5% cut was achieved by eliminating one quarter's fees for lobbyists in these states.

2046996754

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
<u>CORP. COMMUNICATIONS</u>		
Clare Reckert	\$6,000	An ex-business writer with the NYTimes, Clare has been responsible for editing of news releases and placement of stories, particularly earnings releases. The retainer is small but the relationship is more important.
M. Booth & Associates	\$130,000	Assist with promoting and raising the profile of the Hunger and Hunger and Nutrition focus giving area. Effective in assisting the Urban Institute in the first release of its Hunger Among the Elderly survey that PM sponsored and it has provided the Contributions' department with ideas and copy for the Helping the Helpers' brochure. In addition, the agency has created a comprehensive program to promote the Hunger and Nutrition program on the local, state and national levels.
Serino Coyne	\$275,000 (\$75K reduction from cost review)	Specializes in the arts and works with PM's Cultural Affairs department in publicizing PM's support of the arts. This firm has a long history in cultural affairs management and promotion. They are best suited for this job because of the quality and talent of their professionals and their attention to detail.
William Ruder	\$234,000 (\$46K reduction outlined in the cost review)	Provides counsel and advice to senior level executives of the company in addition to the Corporate Affairs department.

2046996755

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
<u>POLICY & ADMINISTRATION</u>		
Parker Cleveland Inc.	\$20,000	Public Relations consultant familiar with PM issues regarding ETS and environmental issues. Specializes in environmental matters and has assisted in the development of our environmental proposal as well as general writing and public relations assignments.
The Wirthlin Group	\$750,000	Provides timely and actionable information on constituent attitudes, motivations and behaviors that can help in the development of communications and business strategies, and in anticipating and responding to specific issues. In addition, by serving as a single source for communication research, The Wirthlin Group can serve the additional function of synthesizing information to apply to business decisions.

2046996756

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
<u>CORPORATE AFFAIRS</u>		
Ailes Communications	\$150,000	Provides advice and assistance on issues relating to the tobacco business, particularly the Tobacco Task Force; helps develop long-term media relations programs; assists in responding to media inquiries and late-breaking news stories.
Arnold & Truitt	\$150,000	Conducting an overall assessment of corporate affairs function for the corporation. Assessing strategies, staffing, programs and procedures at corporate headquarters, the Washington office, and the Operating Companies, including Brussels.
Burson Marsteller	\$372,000	Provide counseling and guidance on: earnings releases, PM USA's recent pricing policy, INFAC, as well as other matters. Chosen because of its leadership position in special situations management and for the breadth/depth of its professionals. The firm has knowledge and experience of all of the Company's operating units, which is invaluable.
Kekst & Company, Inc.	\$125,000	Provides ad-hoc, public relations counsel to senior executives.
Illona, Lang and Associates, Inc. (Donald Mitchell)	\$48,000	Reviews and modifies special situation programs and documentation security.
John G. Keller, Jr.	\$18,000	Assists in planning and handling of tours of Operating Company facilities; assist in the development of a strategy for doing business in the PRC; assists in planning visits to Operating Companies by senior Corporate Affairs staff; provides advice on projects related to the "corporate image."

2929669102

CORPORATE AFFAIRS CONSULTANTS

<u>Consultant</u>	<u>2RF Budget</u>	<u>Description</u>
Newmyer Associates	\$60,000	Provides detailed and very timely reports with interpretations and forecasts on a wide variety of issues and legislation affecting the corporation in Washington, D. C. (e.g., GATT; NAFTA; excise taxes, executive compensation, solid waste, etc.). Assists in strategic planning.

2046996758

2046996759

Tobacco Task Force

(As of 6/30/93)

- Federal Excise Tax Fall Campaign. This 16 week campaign will cover the placement, production, research and development costs. Program covers weekly runs (16x), and are targeted for top ten states, major tobacco states, and top fifty markets for national exposure. (\$14,125,006)*
- Highlight film treatments that target select group of legislators, the administration's political apparatus, opinion leaders and the media.
 - "The Canadian Experience" highlights factual account of Canada's negative experience when it increased cigarette excise taxes. Implications for U.S. (\$86,795)
 - "The Faces of Tobacco" (Real Lives, Real Jobs) which will focus on the devastating unemployment effect excise taxes will have on an already weakened economy. This is a nation-wide issue, not regional. (\$137,498)
- Ad placement with minority press and small weekly and daily newspapers. (\$1,000,000)
- Federal Excise Tax Ads & Testing (April-May phase) development and testing of a series of print and television ads for the FET issue. The plan includes six focus groups in each of the three cities outlined (\$188,500), and on-going development, planning, and implementation of program. (\$180,000)
- Federal Excise Tax Ads & Testing (June-July phase) Concept development for "Enough is Enough" and Labor Day Ads. FET advertisements "Unemployment Line," "Domino," "Surveillance Camera," etc. (\$236,175)
- Develop communications strategy, assess public relations contingency options and provide outside executive counsel. Kekst and Company (\$125,000) and Burson Marsteller (\$250,000)
- Extensive writing and projects for the Tobacco Task Force - executive speeches, op-eds, letters, etc. Proactive and hard hitting. We are no longer sitting back taking shots, but responding to our critics. (\$300,000)

0929669702

- Program applications to FET/EPA issues are a direct response based on research. Focus on June Quorum topline results (e.g., increase in cigarette excise taxes, trends in smoking, smokers issues, etc.) and past public surveys. (\$300,000)
- Mass Mailing - 1.25 million piece directed to volunteer "advocates" will generate approximately 200 letters to each legislator. 240 targeted Members of Congress. The message will be to fight monster taxes, regressivity and that jobs are at risk. (\$450,000)
- Advocate Outreach/Volunteer "Advocates" - Activate the volunteer "advocates" in our systems and begin phone bank operations to generate call to Congress on excise taxes. Generate 200 calls each to key legislators: House Ways & Means, Senate Finance, Leadership, White House, Mrs. Clinton's Office. (\$175,000)
- Canada Tax Primer - 14 minute video on the "Social Cost" issue on Canadian tax consequences and a video news package from that primer. (\$48,840)
- Rose Hearing - video coverage of upcoming hearing. (\$30,000)

Total Projected Budget - \$17,632,814*

**A portion of this figure, approaching 50%, will be split with RJR.*

1929669702

2046996762



Corporate Affairs Cost Review

(7/20/93)

•Public Programs (Originally projected savings \$425,700)*

1993 CORPORATE EXHIBIT

National Urban League (August 1-4)

Dollars needed to participate \$45,000

Our exhibit's absence from this conference, particularly this year, will have a negative impact on the perception of our company in this key audience. In the 1950's, A Philip Morris executive initiated the concept of corporate exhibiting beginning at the NUL, and recruited five other corporations to join us. PMCI and the other exhibit bellwethers are being showcased and honored at the 1993 NUL Convention. Our absence would be conspicuous and embarrassing.

U. S. Hispanic Chamber of Commerce (Sept. 22-25)

Dollars needed to participate \$40,000

Our exhibit's absence from this conference will have a negative impact on the perception of our company for largely the same reason as NUL. Philip Morris Companies, through Miller Brewing Company, was the USHCC's premier corporate partner. Our companies have preferential exhibit floor space, and our absence could be interpreted as a slight to this key audience.

Congressional Black Caucus (September 14-19)

Our exhibit absence at this conference will cause some disappointment with this audience, and may be interpreted as a sign of weakness to our detractors in this arena.

Shriners (August 14-21)

Our exhibit absence at this conference will cause some disappointment and increased doubts about our commitments to this audience.

1993 PROGRAM/PROJECT

Congressional Black Caucus

Dollars needed to participate \$5,000

Reduction of program support to this audience, in light of exhibition absence, may be interpreted negatively.

*Since the original submission on June 8 from this department, a number of commitments could not be severed such as the national Conference of State Legislators which is taking place in San Diego, July 24. **Dollars needed to participate \$30,000.**

3979669702

Cuban National Council

Dollars needed to participate \$2,700

Elimination of program/project support will take away our ability to interact with the only Cuban American organization we support. Currently, in addition to our monies, Contributions funds a summer intern program.

• *Cultural Advertising budget (Originally projected savings of \$1,277,000)*

Cuts were made in every publication category, including the minority media:

- \$52,400 Hispanic and African-American books (total budget \$220,500)
- \$30,300 Black media (Amsterdam News, Los Angeles Sentinel, Ft. Worth Texas Times, Washington Afro-American, and Emerge)
- \$21,100 Latino media (Hispanic Business, El Diario).

There will be a loss in reach and frequency to our corporate affairs target audience of key government and business leaders for the remainder of the year, as well as a negative effect on our overall sponsorship recognition in key Philip Morris markets.

Each year, at least half of our scheduled national campaigns are launched in the fall, when the museums open their major projects at the start of the art season. Because this cut comes in the middle of the year, the three major fall projects (The Next Wave Festival, The Festival of Korea, and Jacob Lawrence: The Migration Series) will not be receiving the minimum number of insertions to successfully create the necessary level of identification with Philip Morris. As a general note, this reduction in media will also lower awareness of Philip Morris' 35th anniversary milestone of arts support.

• *Cultural Affairs Projects (Originally projected savings of \$450,000)*

Many of the 1993 projects have received grants from PM through the Board Allocated Contributions budget. It must be kept in mind that pledges have already been made for promotional support for these projects (this includes receptions, dinners, press kits, brochures, posters, announcements, invitations, activities tied to press coverage, and the like).

Corporate Affairs Cost Review

(7/20/93)

• **Cultural advertising budget (Originally projected savings of \$1,277,000)** There will be a significant loss in reach and frequency to our corporate affairs target audience of key government and business leaders for the remainder of the year, as well as have a negative effect on our overall sponsorship recognition in key Philip Morris markets.

Each year, at least half of our scheduled national campaigns are launched in the fall, when the museums open their major projects at the start of the art season. Because this cut comes in the middle of the year, the three major fall projects (The Next Wave Festival, The Festival of Korea, and Jacob Lawrence: The Migration Series) will not be receiving the minimum number of insertions to successfully create the necessary level of identification with Philip Morris. This reduction in media will also lower awareness of Philip Morris' 35th anniversary milestone of arts support, as a general note.

Cuts were made in every publication category, including the minority media: \$52,400, future insertions in Hispanic and African-American books (total budget \$220,500) \$30,300, black media (Amsterdam News, Los Angeles Sentinel, Ft. Worth Texas Times, Washington Afro-American, and Emerge), and \$21,100, Latino media (Hispanic Business, El Diario).

• **Cultural Affairs Projects (Originally projected savings of \$450,000)** This decrease represents not only lost opportunities to gain recognition and to affirm our role as a leader in corporate arts support, but also the goodwill and visibility that PM has accrued over 35 years in the arts and business communities could be negatively affected.

Many of the 1993 projects have received grants from PM through the Board Allocated Contributions budget. It must be kept in mind that pledges have already been made for promotional support for these projects (this includes receptions, dinners, press kits, brochures, posters, announcements, invitations, activities tied to press coverage, and the like).

As background, a grant amount is requested by the organization, and promotional monies are requested as part of the overall grant. After we have substantially negotiated down the grant amount from the original request, we allocate the promotional monies out of the organization's budget to our administrative budget, in order for us to leverage more control for Philip Morris over credit size, placement, etc. The organization does not care which Philip Morris budget is paying these agreed upon expenses, as long as they are paid as pledged.

Since this promotional support has been verbally agreed to, it could cause serious ruptures in the relationships between PM and these organizations, as well as the communities they serve. Most of these organizations have community, business, or government leaders on their boards of directors, who often have business ties to Philip Morris.

20469669765

•Public Programs (Originally projected savings \$425,700)*

1993 CORPORATE EXHIBIT

National Urban League (August 1-4)

Dollars needed to participate \$45,000

Our exhibit's absence from this conference, particularly this year, will have an extremely negative impact on the perception of our company in this key audience. In the 1950's, A Philip Morris executive initiated the concept of corporate exhibiting beginning at the NUL, and recruited five other corporations to join us. PMCI and the other exhibit bellwethers are being showcased and honored at the 1993 NUL Convention. Our absence would be conspicuous and embarrassing.

U. S. Hispanic Chamber of Commerce (Sept. 22-25)

Dollars needed to participate \$40,000

Our exhibit's absence from this conference will have a negative impact on the perception of our company for largely the same reason as NUL. Philip Morris Companies, through Miller Brewing Company, was the USHCC's premier corporate partner. Our companies have preferential exhibit floor space, and our absence could be interpreted as a slight to this key audience.

Congressional Black Caucus (September 14-19)

Our exhibit absence at this conference will cause some disappointment with this audience, and may be interpreted as a sign of weakness to our detractors in this arena.

Shriners (August 14-21)

Our exhibit absence at this conference will cause some disappointment and increased doubts about our commitments to this audience.

1993 PROGRAM/PROJECT (Projected savings \$63,000)

Congressional Black Caucus

Dollars needed to participate \$5,000

Reduction of program support to this audience, in light of exhibition absence, may be interpreted negatively.

Cuban National Council

Dollars needed to participate \$2,700

Elimination of program/project support will take away our ability to interact with the only Cuban American organization we support. Currently, in addition to our monies, Contributions funds a summer intern program.

*Since the original submission on June 8 from this department, a number of commitments could not be severed such as the national Conference of State Legislators which is taking place in San Diego, July 24. Dollars needed to participate \$30,000.

9929669702

2046996767

PHILIP MORRIS COMPANIES INC. INTER-OFFICE CORRESPONDENCE

1341 G STREET, N.W., SUITE 900, WASHINGTON, D.C., 20005

TO: John Tucker

DATE: June 18, 1993

FROM: Craig Fuller

SUBJECT: Budget Exercise

I have attached the product of several days effort based on our previous budget submission and discussion.

The budget revisions represent our best efforts at getting to targets we were asked to reach.

I think we need to look at the reductions in two ways. First, we have taken several cost savings initiatives to reduce expenditures which should provide about \$4 million in savings this year. We are recommending the elimination of four full-time positions and eleven part-time or temporary positions. In addition, we will freeze and not fill eight positions.

Reductions beyond those described above takes us into a second area where significant reductions in public activities would be required. While the attachment suggests the best ways the corporate affairs group can find to reach the desired targets, I cannot recommend that we take all the actions on the list unless and until we have a discussion about how we want Philip Morris viewed by some of its key audiences. The issue here is not whether or not what's left after the reductions is *a lot of money*. The issue is how much of a *change* will be forced over the final six months of this year.

What Philip Morris has come to represent to community organizations, cultural organizations and various advocacy and interest groups is a strong and steady partner. Every time we step away from one of our "partners" there is a price to be paid. This is not a very good year to pay such a price suddenly and without warning.

If it is decided that we are going to launch the reductions -- and, I clearly believe there should be some -- then I would argue that a contingency fund be established to deal with appeals from the community. I would recommend that one third of the "reduction" go into the contingency fund with "add-back" expenditures coming only after senior management reviews the appeals.

2046996768

As I said in my initial submission to you, the kind of changes that are envisioned to meet targets you've been asked to meet will fundamentally alter the way Philip Morris Companies Inc. is viewed by key constituencies. Our mission calls upon us to build the most successful consumer packaged goods company in the world. Indeed, we are thought of by many as a great global company. A portion of our success and our ability to project the company's greatness is based on our involvement in the community. I do not and cannot object to changing some of our relationships if resources dictate that we do so. I can only tell you that the transition needs to occur over a couple of years not a couple of months if we are to avoid serious consequences.

There is one additional area that needs to be considered. When Mike, Bill and I participated in a meeting with RJR months ago, it was decided that we would form and I would Chair for PM a joint Task Force to deal with tobacco issues -- specifically, ETS and the federal excise tax. The effort was launched immediately with the understanding that we would present a budget for the effort in the future. This budget is going to include significant expenditures for advertising and the start-up of a Smokers Alliance. However, we do not have the program developed sufficiently to provide you with numbers at this point.

We stand ready to work with you on this entire project as it moves forward.

2046996769

Corporate Cost Review Macro Analysis

<u>Project/Program</u>	<u>2RF Budget</u>	<u>1993 Savings</u>	<u>Comments/Implications</u>
Corporate Contributions ¹ (Board Allocated)	60,500,000	12,500,000	
Cultural Affairs ²	3,678,449	450,000	
Corp. Contributions Admin. ²	2,151,135	150,000	
Public Programs ²	3,576,974	425,700	
Int'l Public Affairs ²	931,143	210,000	
Corporate Advertising ²	6,640,620	2,500,000	
Gateway Literacy ²	2,544,790	235,000	
Whitney Museum Annex	761,006	0	
			[Detailed project implications for each category can be found in the appropriate section.]
Washington Relations ³	11,526,674	500,000	
Corp. Government Affairs ⁴	4,876,132	0	
Publications	3,552,718	231,800	
Media Relations	1,980,530	222,800	
Financial Communications	1,406,192	146,000	
Editorial & Video Services	1,182,077	396,500	
Policy, Finance & Analysis	2,793,896	160,000	
Corporate Affairs Admin.	2,182,158	200,000	
External Affairs	551,360	0	
Miscellaneous ³		267,500	
Companies		900,000	
TOTALS ⁵	110,835,854	19,495,300	

¹ Pending further discussions with operating units, approval from the Contributions Policy Committee, and approval by the Philip Morris Board of Directors.

² Public Affairs departments. Total savings in Public Affairs of \$3.9 million represents a 24.1% cut in project expenditures for 1993.

³ Includes 10% travel cut across the board as well as suspension of art acquisition program.

⁴ Joint project with Legal Department representing tort reform budget where Governors in Texas, Mississippi, North Dakota and Arizona have signed significant bills in 1993, and pending proactive initiatives in Louisiana, Massachusetts and Wisconsin, as well as defensive threat in California. This project absorbed a \$1 million cut in 1992.

⁵ Including Corporate Affairs Executive budget of \$3.9 million which constitutes salaries & fringes and contingency funds already expended, total 2RF Budget equals \$114,711,854.

0229669702